

**BOSTON COLLEGE  
ECONOMICS DEPARTMENT**

**EC375: ECONOMIC DEVELOPMENT**

Spring 1996  
Fulton 425  
MWF 11:00

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Office: Carney 139, 552-3685  
Hours: W 3-5, F 8:30-10:30

**Motivation:**

Why focus on developing countries? Some students may be motivated by the thought that, in an increasingly interdependent world, no individual economy can be understood without a grasp of its relation to the whole. Others might hope to shed light on the problems of poverty and inequality or on the dynamics of contemporary development policy. Some students may want to analyze the institutions of production and exchange which have evolved in different cultural settings. Others may want to test the methodological limits of economics itself, as it comes up against the diversity of national experiences of economic growth--a process through which the economics of development has helped to develop economics. In fact, Pranab Bardhan argues that many of the "glittering ideas" of contemporary macro and micro were first uncovered in the literature on economic development.

**Organization:**

We will explore both theoretical and policy-oriented development literature in this course. The reading list draws primarily on recent work by prominent economists, among them Tim Besley, Nancy Birdsall, Sebastian Edwards, Karla Hoff, Anne Krueger, Paul Krugman, Michael Porter, Paul Romer, Joseph Stiglitz, and Lance Taylor. Where appropriate, we will also use Michael Todaro's textbook, *Economic Development*, (Fifth Edition, Longman, 1994) to outline fundamental concepts.

The course is divided into four major sections. In order to ground subsequent work, we will begin with an overview of the tremendously provocative recent experience of Mexico. We will then step back to consider the fundamental goals of development policy, exploring in some detail a variety of models of economic growth. The third section of the course will describe the prevailing policy framework of liberalization, privatization, deregulation, and stabilization, paying special attention to the impact of these policies on the poor. In the fourth section of the course, we will apply contemporary microeconomic analysis to the markets for land, capital, and labor. We will also consider the relation between market-led growth and the environment.

**Requirements:**

This course contains material not suitable for the faint-hearted. Models of endogenous growth and imperfect information are fairly sophisticated and will require careful study. EC201, intermediate microeconomic theory, is a prerequisite for the course. Students' grasp of the readings and the theoretical material will be evaluated through an in-class mid-term on **February 26**, a comprehensive final on **May 9**, and participation in on-going class discussion.

Theoretical models take on new meaning when applied to the analysis of concrete cases. Building on the analytical framework presented in class, students will write position papers proposing specific policies to confront well-defined challenges. I expect most students to work on some aspect of the Mexican case, but other options are also possible. The case studies will have three steps. On **February 12**, students will be asked for a one-page description of the specific problem which each one will address. A complete draft of the position paper will be due on **April 1**. The final, revised version of the paper will be due on **April 17**. More detailed instructions about each step of the case study will be given at the appropriate time.

**Grading:**

Mid-term (February 26): 20%

Final (May 9): 35%

Policy Project (proposal February 12, draft April 1, final version April 17): 35%

Class Participation (ongoing): 10%

**Lest We Lose Sight of the Obvious:**

Come to class. Be on time. Don't cheat. Don't plagiarize. Enough said.

## **Reading List:**

### **I. INTRODUCTION: OVERVIEW OF THE MEXICAN CASE**

Nora Lustig and Jaime Ros, "Mexico," in The Rocky Road to Reform: Adjustment, Income Distribution, and Growth in the Developing World, edited by Lance Taylor, (Cambridge: MIT Press, 1993), pp. 267-295.

Jose Cordoba, "Mexico," in The Political Economy of Policy Reform, edited by John Williamson, (Washington, DC: Institute for International Economics, 1994), pp. 232-284.

Sebastian Edwards, "The Mexican Crisis of 1994 and the Future of the Latin American Reforms," Chapter 9 in Crisis and Reform in Latin America: From Despair to Hope, (New York: Oxford University Press for the World Bank, 1995), pp. 295-317.

### **II. THE GOALS**

#### **Human Development**

United Nations Development Programme, "The State of Human Development", Chapter 1 in Human Development Report 1995 (New York: Oxford University Press for the UNDP, 1995), pp. 11-23.

Paul Streeten, "Human Development: Means and Ends," American Economic Review, 84:2, May, 1994, pp. 232-237.

#### **Economic Growth: Traditional Models and Endogenous Growth**

Todaro, Economic Development (New York: Longman, 1994), "Theories of Development: Comparative Analysis," pp. 67-98.

Paul M. Romer, "The Origins of Endogenous Growth," Journal of Economic Perspectives, 8:1, Winter, 1994, pp. 3-22.

### **III. THE PREVAILING POLICY FRAMEWORK**

#### **The Four "...ations"**

Lawrence Summers and Lant Pritchett, "The Structural Adjustment Debate," American Economic Review, 83:2, May, 1993, pp. 383-389.

#### **Liberalization: Opening the Developing Economy to World Trade**

Todaro, "Trade Theory and Development Experience," pp. 407-446.

Todaro, "The Trade Policy Debate: Export Promotion, Import Substitution, and Economic Integration," pp. 483-523.

Paul Krugman, "Protection in Developing Countries," in Policymaking in the Open Economy, edited by Rudiger Dornbusch (New York: Oxford University Press, 1993), pp. 127-148.

#### **Privatization and Deregulation: Reducing the Role of the State**

Anne O. Krueger, "Government Failures in Development," Journal of Economic Perspectives, 4:3, Summer, 1990, pp. 9-23.

Helen Shapiro and Lance Taylor, "The State and Industrial Strategy," World Development 18:6, 1990, pp. 861-878.

#### **Stabilization: Prices and Politics**

Todaro, "International Finance, Third World Debt, and the Macroeconomic Stabilization Controversy," pp. 447-470.

Sebastian Edwards, "The Political Economy of Inflation and Stabilization in Developing Countries," Economic Development and Cultural Change, 42:2, 1994, pp. 235-267.

## **Reconsidering Poverty, Inequality and Growth**

Todaro, "Growth, Poverty, and Income Distribution," pp. 131-177.

Nancy Birdsall, David Ross, and Richard Sabot, "Inequality and Growth Reconsidered: Lessons from East Asia," World Bank Economic Review, 9:3, September, 1995, pp. 477-508.

Carol Graham, "Market Transitions and the Poor: New Coalitions for Economic Reform?" Chapter 1 in Safety Nets, Politics, and the Poor (Washington, D.C.: Brookings Institution, 1994), pp. 1-20.

George Psacharopoulos, Samuel Morley, Ariel Fiszbein, Haeduck Lee, and William Wood, "Poverty and Income Inequality in Latin America during the 1980s," Review of Income and Wealth 41:3, September, 1995, pp. 245-264. (Recommended.)

## **IV. MICROECONOMIC ANALYSIS OF PARTICULAR MARKETS**

### **Credit and Land Markets**

David Bornstein, "The Barefoot Bank with Cheek," Atlantic Monthly, December 1995, pp. 40-47.

Todaro, "Subsistence Farming: Risk Aversion, Uncertainty, and Survival" and "Sharecropping and Interlocking Factor Markets," in Chapter 9, pp. 304-309 only.

Karla Hoff and Joseph Stiglitz, "Introduction: Imperfect Information and Rural Credit Markets--Puzzles and Policy Perspectives," World Bank Economic Review, 4:3, 1990, pp. 235-250.

Tim Besley, "Nonmarket Institutions for Credit and Risk Sharing in Low-Income Countries," Journal of Economic Perspectives, 9:3, Summer, 1995, pp. 115-127.

## **Labor Markets**

Todaro, Chapter 8, "Urbanization and Rural-Urban Migration: Theory and Policy," pp. 247-280.

George Akerloff and Janet Yellen, "Introduction," in Efficiency Wage Models of the Labor Market, (Cambridge: Cambridge University Press, 1986), pp. 1-9 only.

World Bank, World Development Report 1995 (New York: Oxford University Press for the World Bank, 1995), pp. 15-48, 69-96.

## **Growth, the Environment and the Market**

Todaro , "The Environment and Development," pp. 325-362.

Michael Porter and Class van der Linde, "Toward a New Conception of the Environment-Competitiveness Relationship," Journal of Economic Perspectives 9:4, Fall, 1995, pp. 97-118.

Karen Palmer, Wallace Oates, and Paul Portney, "Tightening Environmental Standards: The Benefit-Cost or No-Cost Paradigm?" Journal of Economic Perspectives 9:4, Fall, 1995, pp. 119-132.